

## **OVERVIEW OF ANNUAL BUDGET PROCESS**

Finale budget will approve before the 31<sup>st</sup> May 2015 as prescribed by the MFMA.

Community meetings did take place from the 20<sup>th</sup> May to the 25<sup>th</sup> May 2015 in all nine towns.

Concerns by stakeholders and Community members.

Repair on Gravel Roads  
Electricity connections  
Grave digging equipment  
Paving of access roads  
Rates tariff for businesses too high  
New sites  
Public Toilets  
Sports Facilities

## **OVERVIEW OF BUDGET RELATED POLICIES**

### **Financial Policy**

Changes in any of the Financial Policies will be workshop with councillors and community.

### **Tariff**

Tariff increase for the next financial year 2015/2016.

Description	2013/2014	2014/2015	2015/2016
Water	10%	10%	10%
Sewerage	6%	6%	10%

Waste Management	6%	6%	10%
Rates	6%	10%	10%

## **OVERVIEW OF BUDGET ASSUMPTIONS**

The following assumptions were used when the budget was compiled:

Salary increments:	8%
Councillor's Allowances:	10%
General Expenses at inflation rate:	6%
Bulk purchase of water: (due to capital commitments)	10%
Provision for Bad Debt: Rates	30%
Water / Sewerage / Refuse Removal	55%

## **OVERVIEW OF BUDGET FUNDING**

## **MONTHLY TARGETS FOR REVENUE, EXPENDITURE AND CASH FLOW**

FS162 Kopanong - Table A4 Budgeted Financial Performance (revenue and expenditure)					
Description	2013/14	2014/2015	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
	Audited Outcome	Adjusted Budget			
Revenue By Source					
Property rates	11 124 839.00	15 539 478.00	19 567 646.00	21 133 057.00	23 246 363.00
Property rates - penalties & collection charges					
Service charges - electricity revenue	50 583 415.00	56 735 688.00	54 318 730.00	58 121 041.00	61 027 094.00
Service charges - water revenue	14 959 002.00	16 499 866.00	23 637 111.00	25 055 338.00	26 057 551.00
Service charges - sanitation revenue	10 014 112.10	11 361 721.00	12 642 182.00	13 400 713.00	13 936 741.00
Service charges - refuse revenue	7 282 278.08	8 375 205.00	9 197 918.00	9 933 752.00	10 927 127.00
Service charges - other					
Rental of facilities and equipment			1 126 174.00	1 216 268.00	1 337 895.00
Interest earned - external investments			622 660.00	672 473.00	739 720.00
Interest earned - outstanding debtors			4 586 079.00	4 952 965.00	5 448 262.00
Dividends received					
Fines			123 203.00	133 059.00	146 365.00
Licences and permits					
Agency services					
Transfers recognised - operational	92 086 000.00	86 261 000.00	82 263 000.00	72 269 000.00	63 829 000.00
Other revenue	16 647 294.00	23 188 816.00	34 945 156.00	10 666 873.00	11 392 783.00
Total Income	202 696 940.18	217 961 774.00	243 029 859.00	217 554 539.00	218 088 901.00

FS162 Kopanong - Table A4 Budgeted Financial Performance (revenue and expenditure)					
Description	2013/14	2014/2015	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
	Audited Outcome	Adjusted Budget			
Expenditure By Type					
Employee related costs	76 120 362.00	79 179 517.00	85 480 262.00	91 866 785.20	101 040 839.31
Remuneration of councillors	4 320 400.00	4 500 000.00	4 500 000.00	4 860 000.00	5 346 000.00
Debt impairment			26 335 036.00	28 441 838.00	31 286 022.00
Depreciation & asset impairment	77 731 285.00	69 287 160.00	69 312 703.00	74 863 339.00	82 334 219.00
Finance charges					
Bulk purchases	52 825 720.00	59 546 158.00	69 098 649.00	74 647 906.00	79 804 228.70
Other materials					
Contracted services	-	-	-	-	-
Transfers and grants	18 549 393.74	20 592 544.32	23 419 295.62	27 251 760.79	31 615 914.05
Other expenditure	63 327 867.00	54 610 474.00	27 040 744.00	24 618 400.00	24 756 164.00
Total Expenditure	292 875 027.74	287 715 853.32	305 186 689.62	326 550 028.99	356 183 387.06

If you look at the total budget excluding Depreciation you will see the budget is in surplus of R 7 155 872.38. Including Depreciation the municipal budget shows a non cash deficit of R 62 156 830.62.

## **ALLOCATIONS ON GRANTS**

DESCRIPTION	BUDGET 2015/2016
<b>Equitable Share</b>	<b>R 78 370 000</b>
<b>FMG</b>	<b>R 1 600 000</b>
<b>MSIG</b>	<b>R 930 000</b>
<b>EPWP</b>	<b>R 1 600 000</b>

<b>MIG</b>	<b>R 20 352 000</b>
<b>DWAF</b>	<b>R 20 000 000</b>
<b>MWIG</b>	<b>R 13 012 000</b>
<b>Expansion of cemeteries in all 9 towns</b>	<b>R 1 750 000</b>
<b>Integrated National Electrification Programme</b>	<b>R 1 600 000</b>

## **CAPITAL EXPENDITURE DETAILS**

FS162 Kopanong - Table A5 Budgeted Capital Expenditure by vote, standard classification and funding

Vote Description R thousand	Ref	2011/12	2012/13	2013/14	Current Year 2014/15				2015/16 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
<b>Capital expenditure - Vote</b>											
<b>Multi-year expenditure to be appropriated</b>	2										
Vote 1 - Executive & Council		-	-	-	-	-	-	-	-	-	-
Vote 2 - Budget and Treasury Office		-	-	-	-	-	-	-	-	-	-
Vote 3 - Corporate Service		-	-	-	-	-	-	-	-	-	-
Vote 4 - Community and Public Safety		-	-	-	-	-	-	-	-	-	-
Vote 5 - Economic and Environmental Service		-	-	-	-	-	-	-	-	-	-
Vote 6 - Trading Service		-	-	-	-	-	-	-	-	-	-
Vote 7 - [NAME OF VOTE 7]		-	-	-	-	-	-	-	-	-	-
Vote 8 - [NAME OF VOTE 8]		-	-	-	-	-	-	-	-	-	-
Vote 9 - [NAME OF VOTE 9]		-	-	-	-	-	-	-	-	-	-
Vote 10 - [NAME OF VOTE 10]		-	-	-	-	-	-	-	-	-	-
Vote 11 - [NAME OF VOTE 11]		-	-	-	-	-	-	-	-	-	-
Vote 12 - [NAME OF VOTE 12]		-	-	-	-	-	-	-	-	-	-
Vote 13 - [NAME OF VOTE 13]		-	-	-	-	-	-	-	-	-	-
Vote 14 - [NAME OF VOTE 14]		-	-	-	-	-	-	-	-	-	-
Vote 15 - [NAME OF VOTE 15]		-	-	-	-	-	-	-	-	-	-
<b>Capital multi-year expenditure sub-total</b>	7	-	-	-	-	-	-	-	-	-	-
<b>Single-year expenditure to be appropriated</b>	2										
Vote 1 - Executive & Council		-	-	350	-	-	-	-	-	-	-
Vote 2 - Budget and Treasury Office		650	1 459	600	650	650	650	650	-	-	-
Vote 3 - Corporate Service		-	-	-	-	-	-	-	-	-	-
Vote 4 - Community and Public Safety		500	900	4 765	4 076	4 076	4 076	4 076	4 997	-	-
Vote 5 - Economic and Environmental Service		18 366	13 548	11 231	1 721	1 721	1 721	1 721	393	21 014	22 007
Vote 6 - Trading Service		7 793	36 395	33 208	25 288	24 288	24 288	24 288	51 324	32 302	95 456
Vote 7 - [NAME OF VOTE 7]		-	-	-	-	-	-	-	-	-	-
Vote 8 - [NAME OF VOTE 8]		-	-	-	-	-	-	-	-	-	-
Vote 9 - [NAME OF VOTE 9]		-	-	-	-	-	-	-	-	-	-
Vote 10 - [NAME OF VOTE 10]		-	-	-	-	-	-	-	-	-	-
Vote 11 - [NAME OF VOTE 11]		-	-	-	-	-	-	-	-	-	-
Vote 12 - [NAME OF VOTE 12]		-	-	-	-	-	-	-	-	-	-
Vote 13 - [NAME OF VOTE 13]		-	-	-	-	-	-	-	-	-	-
Vote 14 - [NAME OF VOTE 14]		-	-	-	-	-	-	-	-	-	-
Vote 15 - [NAME OF VOTE 15]		-	-	-	-	-	-	-	-	-	-
<b>Capital single-year expenditure sub-total</b>		27 309	52 302	50 154	31 735	30 735	30 735	30 735	56 714	53 316	117 463
<b>Total Capital Expenditure - Vote</b>		27 309	52 302	50 154	31 735	30 735	30 735	30 735	56 714	53 316	117 463
<b>Capital Expenditure - Standard</b>											
<i>Governance and administration</i>		-	-	-	-	-	-	-	-	-	-
Executive and council											
Budget and treasury office											
Corporate services											
<i>Community and public safety</i>		-	-	3 725	3 076	3 076	3 076	3 076	4 997	-	-
Community and social services									1 750		
Sport and recreation				3 725	3 076	3 076	3 076	3 076	3 247		
Public safety											
Housing											
Health											
<i>Economic and environmental services</i>		18 366	13 548	11 231	1 721	1 721	1 721	1 721	393	21 014	22 007
Planning and development											
Road transport		18 366	13 548	11 231	1 721	1 721	1 721	1 721	393	21 014	22 007
Environmental protection											
<i>Trading services</i>		7 793	35 795	32 208	24 288	24 288	24 288	24 288	50 591	32 302	95 456
Electricity				1 050					7 006	1 600	5 000
Water		7 793	27 000	24 900	10 000	10 000	10 000	10 000	33 012	30 702	90 456
Waste water management			6 282	6 258	364	364	364	364	3 561		
Waste management			2 512	13 924	13 924	13 924	13 924	13 924	7 011		
<i>Other</i>			1 179	1 117	995	995	995	995	734		
<b>Total Capital Expenditure - Standard</b>	3	26 159	50 521	48 281	30 080	30 080	30 080	30 080	56 714	53 316	117 463
<b>Funded by:</b>											
National Government		26 159	50 521	48 281	30 080	30 080	30 080	30 080	54 964	53 316	117 463
Provincial Government											
District Municipality											
Other transfers and grants									-		
Transfers recognised - capital	4	26 159	50 521	48 281	30 080	30 080	30 080	30 080	54 964	53 316	117 463
Public contributions & donations	5										
Borrowing	6										
Internally generated funds		1 150	2 809	2 990	2 650	1 650	1 650	1 650	1 750		
<b>Total Capital Funding</b>	7	27 309	53 330	51 271	32 730	31 730	31 730	31 730	56 714	53 316	117 463

## Budget and IDP alignment

FS162 Kopanong - Supporting Table SA4 Reconciliation of IDP strategic objectives and budget (revenue)

Strategic Objective	Goal	Goal Code	Ref	2011/12	2012/13	2013/14	Current Year 2014/15			2015/16 Medium Term Revenue & Expenditure Framework		
				Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
R thousand												
Governance and Administration	To improve organisational cohesion and effectiveness. To improve overall financial management in the Municipality by developing and implementing appropriate financial policies procedure and systems.			26 429	36 563	40 365	50 050	50 050	50 050	85 637	55 133	60 539
Community and Public Safety	To promote culture of participatory, democracy and good governance			6 987	7 750	7 541	8 512	8 512	8 512	48 940	46 635	35 739
Economic and Environmental Services	To create an environment that promotes the development of the local economy and facilitate job creation			36	39	41	12	12	12	2 167	2 341	2 575
Trading Services	To eradicate backlogs in order to improve access to services and ensure proper operations			131 601	151 500	154 749	159 387	159 387	159 387	106 286	113 445	119 235
Allocations to other priorities			2									
Total Revenue (excluding capital transfers and contributions)			1	165 053	195 852	202 696	217 962	217 962	217 962	243 030	217 554	218 089

**FS162 Kopanong - Supporting Table SA5 Reconciliation of IDP strategic objectives and budget (operating expenditure)**

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FS162 Kopanong - Supporting Table SA6 Reconciliation of IDP strategic objectives and budget (capital expenditure)

Strategic Objective	Goal	Goal Code	Ref	2011/12	2012/13	2013/14	Current Year 2014/15			2015/16 Medium Term Revenue & Expenditure Framework		
R thousand				Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
Executive & Council	FURNITURE AND OFFICE EQUIPMENT AND NEW VEHICLE	A				350						
Budget and Treasury Office	FURNITURE AND OFFICE EQUIPMENT AND NEW VEHICLE	B		650	1 459	600	650	650	650			
Community and Public Safety	FENCING CEMETERY	C		500	750	1 040	1 000	1 000	1 000	1 750		
Trading Service	FENCING LANDFILL SITE	D			600	1 000	1 000					
Trading Service	Paved access road	E		18 366	13 548	11 231	1 721	1 721	1 721	393	21 014	22 007
Trading Service	Water project	F		7 793	27 000	24 900	10 000	10 000	10 000	33 012	30 702	90 456
Trading Service	Upgrading of Waste Water treatment	G			6 282	6 258	364	364	364	3 561		
Trading Service	Recreational Sport Facility	H				3 725	3 076	3 076	3 076	3 247		
Trading Service	PMU	I			1 179	1 117	995	995	995	734		
Trading Service	Waste Management	J			2 512		13 924	13 924	13 924	7 011		
Trading Service	Electricity	K								7 006	1 600	5 000
		L										
		M										
		N										
		O										
		P										
Allocations to other priorities			3									
Total Capital Expenditure			1	27 309	53 330	50 221	32 730	31 730	31 730	56 714	53 316	117 463



## **EXECUTIVE SUMMARY**

### **1. PURPOSE**

The purpose of this report is to table the first draft budget for 2015/2016 to the Council to approve.

### **2. BACKGROUND**

As the Council knows that the budget must be compiled according to the prescriptions of the MFMA Act 56 of 2003. We are always trying to comply with the act and this year is no exception

Compliance with the MFMA and this circular is critical to ensure the acceptance of our budget by National Treasury. One big exception is that we must include the different departments SDBIP's with the budget approval. Previously it had to be done 28 days after the approval of the budget. We must also show the previous two year's budget as well as for the next two years. To comply with this we brought in four extra columns into the budget for the 2012/2013, 2013/2014, 2014/2015 and 2015/2011 budgets. It makes the budget document very bulky but it is very useful and can be used for comparisons over the last couple of years and to see the projections for the next two years.

### **Summary Of Income and Expenditure Budget 2015/2016**

<b>Income and Expenditure Summary</b>		
Total Income		243 029 859.00
Total Expenditure		305 186 689.62
Total Non Cash Deficit Due To Depreciation		-62 156 830.62
<b>Excluding Depreciation</b>		
Total Income		243 029 859.00
Total Expenditure		235 873 986.62
Total Surplus		7 155 872.38

### 3. Summary of Income Budget for 2015/2016

#### TABLE OF INCOME

FS162 Kopanong - Table A4 Budgeted Financial Performance (revenue and expenditure)					
Description	2013/14	2014/2015			
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Property rates	11 124 839.00	15 539 478.00	19 567 646.00	21 133 057.00	23 246 363.00
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Licences and permits					
Agency services					
Transfers recognised - operational	92 086 000.00	86 261 000.00	82 263 000.00	72 269 000.00	63 829 000.00
Other revenue	16 647 294.00	23 188 816.00	34 945 156.00	10 666 873.00	11 392 783.00
Total Income	202 696 940.18	217 961 774.00	243 029 859.00	217 554 539.00	218 088 901.00

The reason for the decrease in Equitable share is due to census from R 82 502 000 million to R 78 370 000 difference is R 4 132 000 million.

The results of the latest national census were released by Statistics South Africa in October 2012. According to the 2011 Census, the population of some municipalities grew by over 50 per cent between 2001 and 2011, while others experienced a decline in population. Some provinces recorded significantly smaller populations in the 2011 Census than had been previously estimated, including KwaZulu-Natal, Eastern Cape, Limpopo and the Free State. Gauteng has the highest population increase of close to 1 million people. Transfers to municipalities will significantly be affected by this data as the data used in the local government equitable share and municipal infrastructure grant have been updated to reflect these changes.

#### **Narratives**

#### **Municipality is going to improve the revenue by:**

- In-house debt collections
- Accurate water system readings
- Door to Door debt collection from businesses and Government officials
- Municipal Water Infrastructure Grant to upgrade water network and install water meters

- Repair all broken water meters
- Installation of 1363 water meters to the places which are presently un-metered
- For the people who are owing the Municipality a 30% will be deducted on the purchase of prepaid electricity and be allocated to municipal debt
- Debtors write off to reduce the Debtors book balance to acceptable level
- Revenue Enhancement Strategy
- Evicting of the people who are renting Municipal properties and let other people to rent and pay monthly rents
- To do Debtors data cleansing
- To get the involvement of the Councillors for revenue collection and championed by the Mayor
- Handing over to collecting Attorneys for people who do not pay

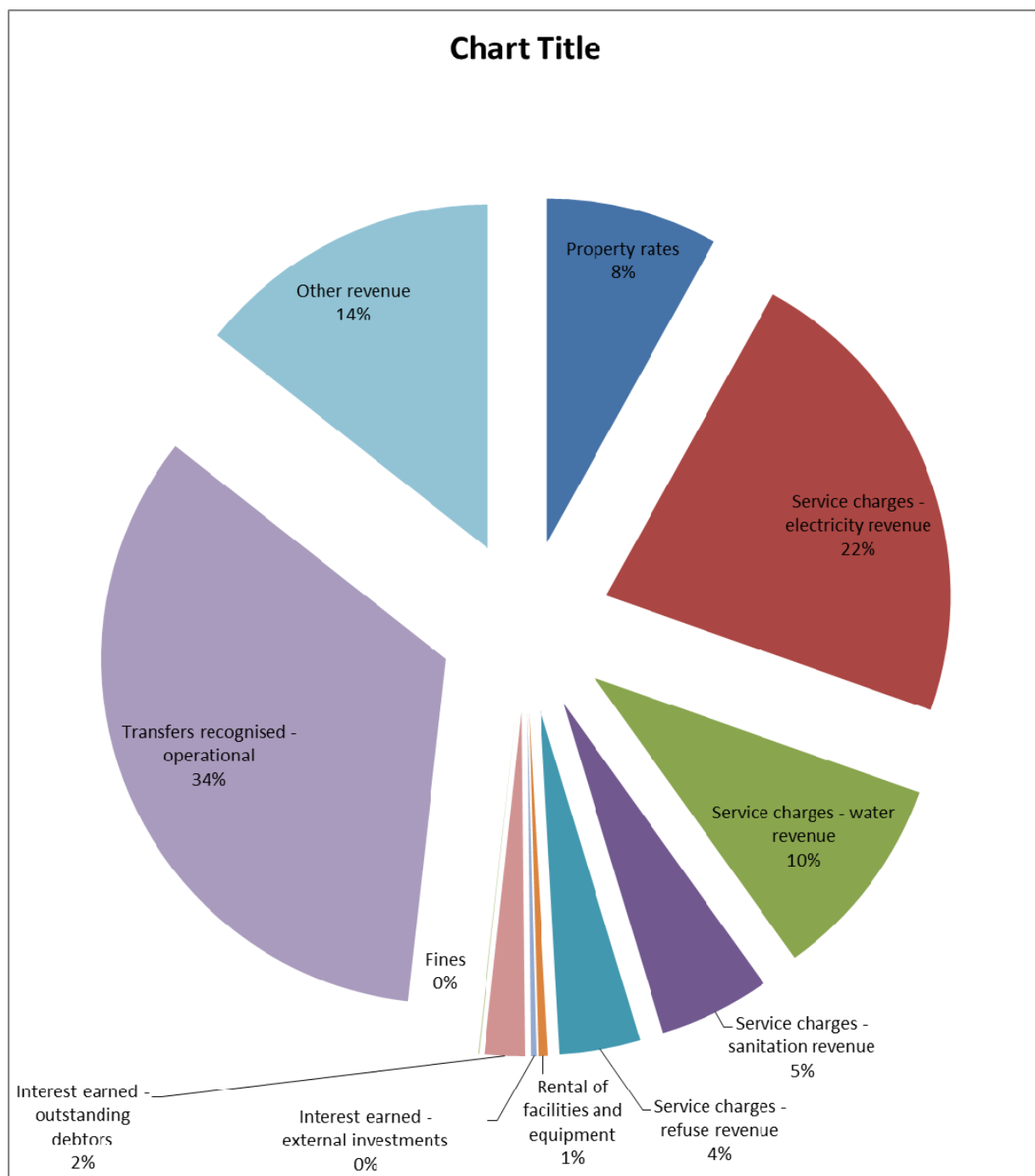
### **Incentive**

All households who pay 50% immediately when the scheme becomes active will receive a 50% discount.

All households with a monthly income of R 10 000 or less per month can register for the incentive scheme. If they are approved they must entered into an agreement with the municipality to pay of 65% of their arrear debt over a determined period and pay their current account each month. If the registered consumer pays of his/her 65% of the arrear debt without defaulting the municipality writes off the outstanding 35%.

All households with a monthly income above R 10 000 can register for the incentive scheme. If they are approved they must entered into an agreement with the municipality to pay of 75% of their arrear debt over a determined period and pay their current account each month. If the registered consumer pays of his/her 75% of the arrear debt without defaulting the municipality writes off the outstanding 25%.

The following chart below illustrates the percentage per service against total income budget.



Increases in services for the 2015/2016 budget year.

Description	2013/2014	2014/2015	2015/2016
<b>Water</b>	<b>10%</b>	<b>10%</b>	<b>10%</b>

<b>Sewerage</b>	<b>6%</b>	<b>6%</b>	<b>10%</b>
<b>Waste Management</b>	<b>6%</b>	<b>6%</b>	<b>10%</b>
<b>Rates</b>	<b>6%</b>	<b>10%</b>	<b>10%</b>

We budgeted for 70% collection rate on Property Rates and 45% on the rest of services Waste Management, Sewerage and Water.

All other income was increased with 10%.

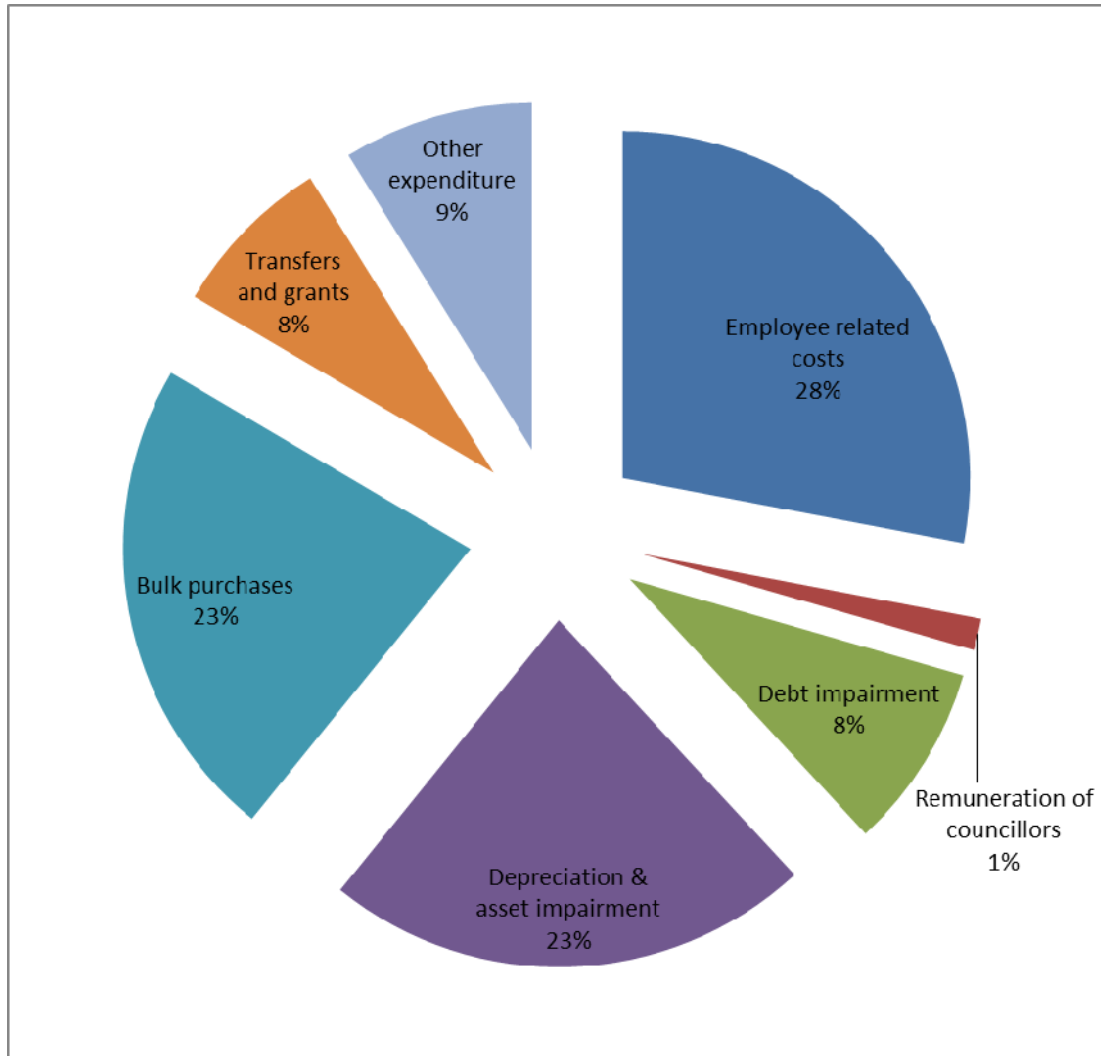
As we all know that the cost of infrastructure and maintenance is increasing daily it's one of the most important factors influencing the water tariffs.

#### 4. **SUMMARY OF EXPENDITURE BUDGET FOR 2015/2016 BUDGET YEAR.**

##### **TABLE OF EXPENDITURE**

FS162 Kopanong - Table A4 Budgeted Financial Performance (revenue and expenditure)					
Description	2013/14				
	Audited Outcome	Adjusted Budget	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
Expenditure By Type					
Employee related costs	76 120 362.00	79 179 517.00	85 480 262.00	91 866 785.20	101 040 839.31
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Debt impairment			26 335 036.00	28 441 838.00	31 286 022.00
Depreciation & asset impairment	77 731 285.00	69 287 160.00	69 312 703.00	74 863 339.00	82 334 219.00
Finance charges					
Bulk purchases	52 825 720.00	59 546 158.00	69 098 649.00	74 647 906.00	79 804 228.70
Other materials					
Contracted services	-	-	-	-	-
Transfers and grants	18 549 393.74	20 592 544.32	23 419 295.62	27 251 760.79	31 615 914.05
Other expenditure	63 327 867.00	54 610 474.00	27 040 744.00	24 618 400.00	24 756 164.00
<b>Total Expenditure</b>	<b>292 875 027.74</b>	<b>287 715 853.32</b>	<b>305 186 689.62</b>	<b>326 550 028.99</b>	<b>356 183 387.06</b>

The following chart below illustrates the percentage per expenditure type against total expenditure budget.



#### **Salaries – R 85 197 609**

We budgeted for 8% increase on salaries for personnel for 2015/2016. For Councilors we projected an increase in allowances of 10%. Currently the salary percentage is 28% of the total budget. The national norm is between 30 and 35%.

#### **Depreciation – R 69 312 703**

Due to the fact that the municipalities budget is in a deficit of R 69 312 703 is due to depreciation which is a non-cash deficit.

A Financial Performance budget surplus/deficit in itself is not an indication of a 'funded' budget, due to items such as capital grants, depreciation and provisions.

Let's assume, for example, that a municipal Financial Performance budget shows a deficit. This deficit would not exist if budgeted depreciation was not included. Trying to apply the past mindset of a "balanced budget" to the Financial Performance budget may result in a view that consumer charges will need to be increased to cover the depreciation. This may not be the case, since a deficit on the Financial Performance budget does not necessarily mean that the budget is not funded. Therefore, further analysis will be required by the municipality to obtain the correct picture.

#### **Bulk Purchases – R 69 098 649**

<b>Break Down Bulk Purchase</b>				
Bulk purchases	2014/2015	2015/2016	2016/2017	2017/2018
Electricity Bulk Purchases	39 546 158	42 729 624	46 169 359	48 477 827
Water Bulk Purchases	20 000 000	26 369 025	28 478 547	31 326 402
Total	59 546 158	69 098 649	74 647 906	79 804 229

#### **GENERAL EXPENDITURE – R 27 323 000.00**

Overall most of the line items were increased by 10%. In certain instances we budgeted on a zero base and some new line items were introduced. Currently general expenditure is 9% of the total budget.

#### **5. CAPITAL BUDGET – R 54 964 000**

DESCRIPTION	BUDGET 2015/2016
MIG	R 20 352 000
DWAF	R 20 000 000
MWIG	R 13 012 000

<b>Integrated National Electrification Programme</b>	<b>R 1 600 000</b>
<b>TOTAL</b>	<b>R 54 964 000</b>

In total 100 % of our capital budget is funded from external sources. All of these funds were already allocated to certain projects such as the Water projects of Jagersfontein and Fauresmith amounted to R 20 000 000. And R 20 352 000 for MIG projects also MWIG of R 13 012 000 and INEP of R 1 600 000.

## **6. PROBLEM STATEMENT**

The new changes and regulations what we must adhere to also poses a problem. It is a new territory and we struggled to present all new regulations as understandable as possible to council. Certain things can't be simplified and must be taken as they're prescribed. Hopefully we succeeded in our request to simplify the budget and council would be able to give their inputs as they understand it.

The uncertainty of what fuel prices will have on suppliers and us is also a problem. To budget for something you are not certain about is always difficult and one hopes that our projections will be accurate and fair. One thing is certain and that is the cost of consumables, vehicles and basically every thing will rise and the consumers of services do not always see it that way. Services will be more expensive and to keep it affordable for every one is and will be a challenge to municipalities al over. But with good planning and management it is possible to keep cost as low as possible in future.